Military Market

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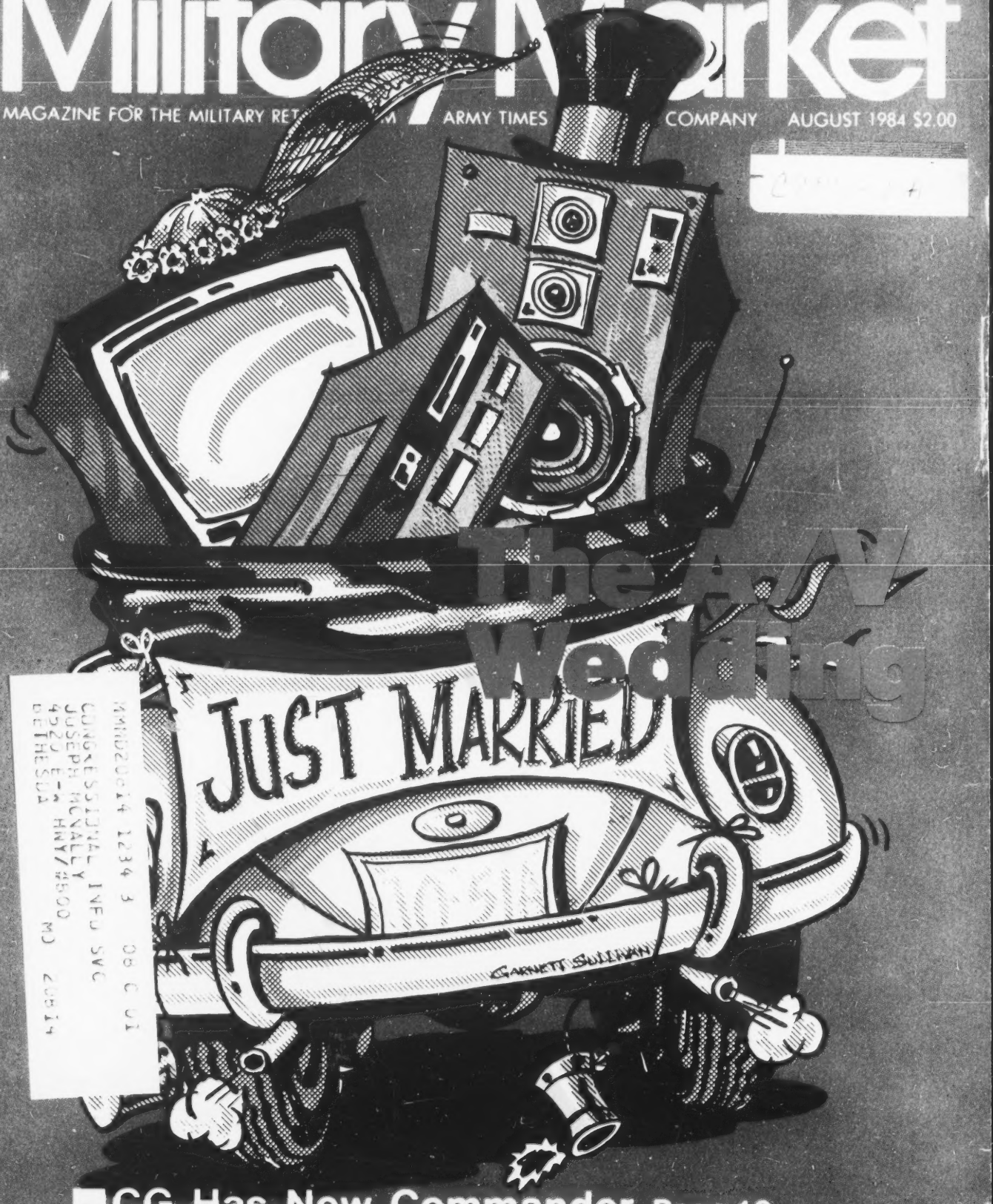

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Military Market serving the military retail system

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coming

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EDITOR
Nancy Tucker
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Guy Lamolinara
ASSOCIATE EDITOR
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ATPUBCO NEWS SERVICE
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ART DIRECTOR
Jack Auldridge
STAFF ARTISTS
Matthew Arozian, Garnett Sullivan, Carrie Wall
ADVERTISING MANAGER
Kirk Brown
CIRCULATION
Paul A. Binkowski
ADVERTISING PRODUCTION
Phyllis King

EXECUTIVE OFFICES
Springfield, VA 22159-0210
Phone (703) 750-8676
ADVERTISING SALES OFFICES
1 Citicorp Center
153 E. 53rd St.
New York, NY 10022
Phone (212) 753-1040

ABC BPA

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Military Market survey

Out-of-Stocks:
'Embarrassing to Me, the Exchange and the System.'

"IN THIS BUSINESS, word-of-mouth is very important . . . even the *perception* of an out-of-stock item is unbelievably damaging to the exchange's image and credibility," explains one NAVRESSO exchange manager. "When they do happen, it's crucial to minimize the damage that's already been done."

Fifteen exchange mangers (eight from AAFES, five from NAVRESSO and two from the Marine Corps) were contacted for this month's MILITARY MARKET telephone survey. As dirty a word as out-of-stock or NIS is to the ears of many exchange managers, several of them nevertheless were willing to talk at length about how they tackle this all-too-frequent problem and the strategies they use to keep it from occurring regularly.

It's clear from their responses that keeping the shelves well-stocked is both a personal and professional priority for exchange managers. Each of the 15 respondents told MILITARY MARKET that they check the shelves regularly, often more than twice a day. "It's not something I always do consciously," comments one AAFES store manager. "It's not like I say to myself, 'I'm going to look for out-of-stocks now.' It's an ongoing process . . . I make mental notes of shelf holes as I'm doing other things."

As is often the case, vendors and milreps were cited as the major cause of out-of-stocks, although many managers said there were several factors that contribute to every out-of-stock situation. "It's very easy to point fingers at the vendor, but all the players have to take some of the blame. It's a team effort to stock the shelves," remarked a NAVRESSO store manager.

All 15 managers said they use signs at the point-of-purchase when there is an NIS for a major brand, or at the very least, they have oral explanations ready for customers who inquire about the item. "You don't always want to draw attention to a hole on the shelf with a sign . . . There are instances, however, when it's a good idea. You really have to use a little judgment and common sense with signs," advises another NAVRESSO exchange manager.

Of special interest is the general feeling that exchange shelves are well-stocked, with 11 of the 15 managers saying they believe their stores fared better than civilian department stores. In addition, 10 of the managers felt their in-stock position had improved significantly over the past year. "Keeping the shelves full has been my personal priority this year," remarked one AAFES manager.

Several mangers noted that H&BA and clothing departments were particularly susceptible to out-of-stocks because high consumer demand and often inadequate supplies keep the shelves lean. "Keeping all the sizes in stock can be difficult," laments an AAFES manager.

A particularly difficult question for many store managers to answer concerned which product categories have the highest in-stock ratios. "That's a really tough one to say with any certainty. There are so many variables. It depends on the season, the buying whims of the public and, to a large extent, what's happening on the outside. After all, is it really fair to consider Cabbage Patch dolls as an out-of-stock?" one Marine Corps store manager asked.

Constant vigilance and paying close attention to day-to-day management details were the most often cited strategies for avoiding NISs by the managers. "So often, it's just a matter of the right people not talking to one another, misunderstandings and lack of communication," points out another manager.

All the managers surveyed felt that keeping open the lines of communication between the store, vendors and the stockers is the key to minimizing NISs. "When a shopper sees an out-of-stock, it is embarrassing to me, the exchange and the entire system," concluded one.

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1 — AS THE EXCHANGE MANAGER, HOW OFTEN DO YOU *PERSONALLY* INSPECT THE SHELVES FOR THEIR IN-STOCK CONDITION? Less than daily — 0. Daily — 5. Twice a day — 5. More than twice a day — 5.
2 — WHAT PERCENTAGE OF OUT-OF-STOCKS WOULD YOU ESTIMATE YOUR STORE AVERAGES? 0%-5% — 13. 5%-10% — 2. 10%-15% — 0. 15% or more — 0.
3 — WHAT DO YOU THINK IS THE MAJOR CAUSE OF OUT-OF-STOCKS IN YOUR STORE? Vendors — 7. Warehousing problems — 3. Purchasing — 2. Lack of communication — 2. Other — 1.
4 — WHEN AN OUT-OF-STOCK *DOES* EXIST, WHAT MEASURES DO YOU TAKE TO SEE THAT THE CUSTOMER IS AWARE OF THE PROBLEM (e.g., signing, oral explanations, etc.)? See story.
5 — DO YOU FEEL THAT THE OUT-OF-STOCK SITUATION FOR YOUR STORE IS WORSE, BETTER OR THE SAME AS FOR A COMPARABLE CIVILIAN DEPARTMENT STORE OR OTHER RETAIL OUTLET? Worse — 3. Better — 11. Same — 1.
6 — WHAT COULD YOUR HEADQUARTERS DO TO HELP YOUR STORE AVOID OUT-OF-STOCK CONDITIONS? See story
7 — HOW DOES YOUR OUT-OF-STOCK CONDITION FOR THIS YEAR COMPARE WITH THE PREVIOUS YEAR'S? Better — 10. Worse — 2. About the same — 3.
8 — IN WHICH DEPARTMENT OF YOUR STORE DO YOU GENERALLY FIND THE GREATEST FREQUENCY OF OUT-OF-STOCKS? WHICH AREA GENERALLY HAS THE LEAST? See story.
9 — IN GENERAL, WHAT SUGGESTIONS DO YOU HAVE FOR MAKING SURE YOUR STORE IS BETTER STOCKED? See story.

Summer Consumer Electronics Show:

The Audio/Video Marriage Is at Hand

Wedding bells rang as the marriage between audio and video appeared closer with each new product. The mood of buyers was buoyed by the blistering sales pace of VCRs and cassette decks. The dawn of the digital age in audio is fueling a surge for consumers to upgrade their aging sound systems. Emerging technologies are predicted to change the future of home entertainment.

Photos by Jay Blucher

By JAY BLUCHER
Associate Editor

FOR ONE SWELTERING week in June, manufacturers, retailers, and buyers alike get a first-hand look at the latest gee-whiz offerings of the consumer electronics industry.

Chicago's Summer Consumer Electronics Show, billed as the largest trade show in the country, is a spectacle aptly described by one onlooker as "little more than a technological crapshoot." With a roadside well-littered with fallen companies whose futures were staked on one sure-fire technology or one can't-miss electronic gadget, industry insiders are quick to point out the risky nature of this business.

"What is today's state-of-the-art equipment, quickly becomes tomorrow's dinosaur," explained one rep from the floor of the SCES, held at the Windy City's McCormick Place from June 3-6.

For an entire industry to hinge on such precarious technology has its merits, however, for the same buyer of last year's state of-the-art stereo system, whether audiophile or stereo neophyte, is going to want to upgrade that equipment at some point in time. And with the recent advent of digital technology, audio customers are now witnessing one of the best reasons to upgrade and get the latest improvements.

"We're not talking just 18-to-25-year-olds, either. Today's market is more mature — people who've grown up with high quality audio systems and want to upgrade," said a spokesman for Kenwood Electronics Inc.

Apparently, systems upgrading is the major push behind the burgeoning retail sales figures for this $30 billion industry. "We're not only selling more of our products; there's something left over after all the bills are paid," said William E. Boss, vice president of the Consumer Electronics Division of RCA, in his keynote address.

"In video, in computers and even in our old mainstay, audio, . . . [manufacturers and retailers] are seeing better and better numbers below the bottom line — black ink instead of red," he said.

Boss noted that a year ago consumer electronics products were in oversupply, resulting in inventory-clearing price cutting. But a strong Christmas selling season produced a temporary shortage of goods on retail shelves. With consumer spending continuing briskly this year, Boss said, "By this fall, we may well be in a shortage position once again."

Europe Leads Military Sales

Within the military, sales figures point out that the majority of servicemembers are making their electronics purchases through the resale systems overseas. NAVRESSO reports worldwide consumer electronics sales in 1983 of more than $98.4 million, with ConUS sales accounting for $35.6 million — a slim 36 percent of sales. Overseas sales for NAVRESSO were a whopping $62.9 million. At AAFES, the sales picture is similar, with its 1983 overseas sales of $328.7 million easily eclipsing ConUS sales of $111.6 million. Stateside sales represent only 34 percent of AAFES' electronics market. The resale giant's total worldwide sales for consumer electronics were more than $471.4 million.

ConUS exchanges are forbidden by law to carry a wide range of hi-fi items, including most separate components. In addition, the stores cannot stock merchandise selling for more than a specified price point.

But such restrictions do not exist overseas, where local BXs, PXs, MCEXs or NEXs carry an incredibly diverse selection of audio, video and computer gear. Consequently, Europe — where most GIs are stationed at one time or another — has become the primary shopping area for servi-

cemembers interested in assembling their "dream systems."

At some of AAFES' larger European exchanges, for instance, Super Sound Centers, which feature elaborate demonstration and listening facilities and have manufacturers' technical representatives on hand to answer questions, offer the military consumer a unique shopping opportunity. Indeed, many servicemembers believe the resale systems' audio departments are unmatched by even the most specialized civilian retailers. Although the smaller AAFES stores have more limited selections, they have access to the entire system's regular stock assortment items by forwarding a customer convenience report request to a larger store or to AAFES-Europe's distribution center in Giessen, Germany.

For those afficionados still unsatisfied by the exchange's selections, there is also an extensive system of military audio clubs to turn to. These clubs are basically hobby shops, and are authorized as nonappropriated-fund resale activities independent from the exchange systems.

One distinct advantage these clubs have over the exchanges is that they are supplied by nearby European distributors, whereas AAFES-Europe buys most of its electronics merchandise from Japan. Often, the European suppliers can react faster to new trends, trying out new items as fast as they become available from local suppliers in Europe.

Similar audio clubs exist for naval servicemembers as well. Typically, these clubs specialize in carrying more upscale, high-ticket stereo items that the exchanges may not carry. Often, the clubs' operating hours are tailored to servicemembers' off-duty hours or when the NEX is closed. Usually staffed by military dependents and off-duty military personnel, these audio hobby shops pride themselves on offering the latest sophisticated equipment and technical expertise for the military consumer.

Another potential pipeline for overseas servicemembers in search of the ultimate in electronics equipment is the *Exchange Mail Order Catalog*, published by AAFES each August. Last year's catalog sales for consumer electronics were more than $31 million, according to AAFES sales figures. Merchandise ordered through the catalog may be sent to any overseas APO or FPO address or to any address in the United States, although the U.S. recipient will usually have to pay customs duty on any foreign-made item.

With its four distinct sections — America (parts I and II), Europe/Middle East and Far East — servicemembers using the catalog have a decided advantage in being afforded a truly international audio selection to choose from.

Foreign-made items in the American section of the catalog are sitting in stateside warehouses, so shipping costs and customs duties have already been paid on them and are reflected in the price. This is why Japanese-manufactured cassette decks, for example, are more expensive in the American section than in the Far East section of the catalog. Discerning audio shoppers know they can save money by avoiding *foreign-made* items from the American section — unless perhaps they are having something mailed directly to someone in the States and don't want them to have to pay the customs duty.

Marriage of Audio and Video

One trend that has raised the spirits of everyone in the consumer electronics industry and that has retailers beaming is the long-awaited "marriage" between audio and video. No longer content to loom on the horizon, their union appears more complete with each new-product entry.

The lines that used to separate audio and video are becoming less clear all the time. Indeed, many manufacturers now speak lovingly of this "marriage." And why not? Retailers, military and civilian alike, see enormous potential in the new home entertainment world that's about to be born of this union.

Marketers point to the growing appeal of music videos. This is due largely to the popularity of MTV, as raising the *audio* consciousness of video viewers. Likewise, hit movies are being purchased by VCR owners, who now number more than 10 million, according to Electronics Industry Association statistics.

There also seems to be a new "complete system" mind-set on the part of many of the major audio manufacturers. Spurred largely by the success of one-brand audio systems, many companies are stressing a complete package incorporating both audio and video capabilities. Many consumers are ready to replace aging audio equipment and are amenable to replacing an entire system in order to be "on top of the technological hill," as one manufacturer put it.

Stereo TV: Big Potential

With American airwaves now open for stereo TV broadcasts as the result of a March 29 decision handed down by the Federal Communications Commission, the path has been cleared for stereo television.

More hi-fi VCRs are entering the pipeline at lower prices, and musical fare on prerecorded video is growing in both quantity and popularity. Consequently, the new audio electronics components that debuted at the SCES are becoming multimedia command centers with the addition of inputs and controls for video sources.

The television, usually the heart of any home entertainment system, has expanded its role as a passive entertainment device to become an important component used in conjunction with videocassette recorders, video games and personal computers.

"It's becoming rather common for consumers to hook up their TVs to their hi-fi systems to get full stereo sound from FM-TV broadcasts," explained a Pioneer spokesman.

Even the term "television" is rapidly being replaced in the jargon with "monitor" or "multimedia center." One manufacturer points out, however, that, "I don't think the general public is really ready for a 'pure' monitor, and the evidence [for this] is

in the fact that consumers are still calling them TVs."

Semantics aside, marketers are looking with longing eyes at consumer research that predicts a 50 percent turnover of TV sets now installed in the U.S during the next three years as a result of the new emerging technologies in this area.

RCA Consumer Electronics, for instance, predicts a 14 percent increase in the sales of color-TV receivers (to more than 15.8 million units this year), and expects the category to surpass $5.4 billion in 1984.

Manufacturers point out trends toward larger monitor (TV) screens and a growing consumer preference for all-in-one over separates (tuner, monitor, amplifiers and three-way speakers). Most manufacturers say that 19-inch models will continue to hold their own in the marketplace, but more and more customers are making it clear they're willing to spend the extra dollars for a 25-inch tube. Introductions at the SCES reflect this trend.

For example, Pioneer's Foresight 700, a component color television system features a 25-inch monitor, a 127-channel tuner, a 50-watt stereo amplifier and three-way speakers.

"The bigger 25-inch screen size is definitely where the action is and where it will be in the future," says Pioneer video spokesman Ron Petty. "In fact, that's the reason we discontinued the 19-inch model in our Foresight line."

"Television componentry is just like audio componentry, with people now wanting to build up on their television sets," adds Jack Wayman, vice president of the Electronics Industries Association. "The 1985 numbers will even be higher, considering the impact of stereo broadcasting and increasing cable penetration — plus the continued demand for home computers," he said.

RCA Consumer Electronics introduced 18 sets at the SCES with built-in stereo to capitalize on stereo TV broadcasts planned by broadcasters. NBC-TV, an RCA unit, seems to be leading the fray into stereo among the three TV networks. NBC has announced that "The Tonight Show" and "Friday Night Videos" will go stereo in June 1985. Initially in the New York, Washington, D.C., and Los Angeles markets, NBC says that

THE ARCHWAY to the floor of the SCES is the scene of frantic activity for many buyers, retailers and manufacturer's reps.

come fall 1985, it expects to add theatrical movies, sports and special events to its menu of stereo offerings.

Spokesmen for the major TV networks tell MILITARY MARKET that stereo programming will be slow in coming, despite the FCC March 29 go-ahead. The exception seems to be PBS, which says it might be getting into this sooner than the Big Three.

While the major broadcasters ponder the desirability of multichannel TV sound, a significant portion of the U.S. population seems to think television will benefit from stereo. A nationally representative survey conducted last August by Dolby Labs found that 63 percent of the respondents believe stereo sound will enhance their TV viewing. The random sampling found 94 percent own a color TV and 91 percent some form of stereo music system.

Tape decks: No. 1 in Audio

Cassette decks remain the single hottest-selling audio product, although VCRs are the biggest category overall. The continuing importance of cassette decks was underscored by the large number of new products unveiled at the SCES. Among manufacturers rolling into Chicago with new models were Technics, JVC, Onkyo, Kenwood, Akai, TEAC, Aiwa, Pioneer and Fisher, to name a few.

Each manufacturer is trying to cram every conceivable electronic feature and gizmo into its offerings while still trying to keep prices stable. The result is that the military consumer should be able to find some outstanding values in the cassette deck arena this year.

An increasing number of units are now including at least two noise-reduction systems, and some decks sport three noise-reduction systems — Dolby B and C, as well as dbx.

Auto-reverse was probably the single feature with the most momentum at this year's SCES, with this once top-of-the-line technology now being increasingly seen on many new models all the way down to economy price points.

'Then There Were Three'

First there was Beta. Then came VHS. And if VCR shoppers were not confused enough, a third video format has entered the market with the recent introduction of Kodak's lightweight 8mm video cameras. Canon, Sanyo and Fisher also exhibited prototypes of proposed 8mm cameras.

These camcorders, as they are called, are a combination VCR camera and recorder. Their unique selling point is the portability they offer the home movie buff who is familiar with the standard 8mm home movie camera.

Most VCR suppliers say they expect the increasing demand will keep VCR prices stable throughout the

year. Other factors cited include the possibility of undersupply (which would force American companies to turn to Korean and Japanese manufacturers, keeping prices low) and demand for models with sophisticated features and hi-fi audio. Executives from Hitachi, JVC, Panasonic, Quasar and Zenith concur that price erosion of the last two years appears to have settled, with promotional VCR machines settling around the $400 price point in civilian stores.

The latest trend in VCRs — to hi-fi sound — may further this rapidly developing marriage between audio and video. "The hi-fi VCRs are far superior to the best of the audiocassette decks" for recording music, says Liam S. Drady, marketing vice president for home electronics at Jensen International, probably the largest U.S. company still in the audio components business.

CDs Vie for Recognition

The compact disc is yet another example of the blurring between audio and video. The CD is basically an abbreviated version of the laser videodisc; its 4¾-inch-diameter disc packs digitally encoded stereo sound that is "read" with the same type of laser pickup as used in videodisc technology. Like the plunge in VCR prices, sales of CD players have been stimulated by a 50 percent drop in prices since the player's introduction in the last summer. Costing $499 at civilian outlets today, by year end some models will be available for less than $300.

Videocassette recorders are expected to continue their blistering sales pace in 1984:

	Unit Sales*	Factory Sales†	Average Value‡
1980	805	$621	$771
1981	1,361	$1,127	$828
1982	2,035	$1,303	$640
1983	4,091	$2,162	$528
1984 (proj.)	7,000	$3,440	$491
1985 (est.)	8,000	$3,760	$470

* To dealers, in thousands of units
† In millions of dollars
‡ Per unit, in dollars

SOURCE: Electronics Industries Association

Sony Corporation of America unveiled two compact audio disk players for cars at the SCES, and company officials claim the player will withstand the heat, humidity and vibrations of car travel. Officials would not disclose prices, but it is expected that the car CD players will range from $500 to $1,000. They also acknowledge that the technology in the new players may point the way to portable compact audio disc players.

Sansui unveiled its PC-V300, a front-loading CD featuring a three-beam laser pickup system, a 16-bit linear digital-to-analog converter and a choice of direct-access or automatic play. JVC, meanwhile, has introduced a front-loading player, the Model XL-V2, that the company says uses the same 16-bit format used in studio recording and boosts the dynamic range to 96dB. (This is a full 36dB wider than the average LP could deliver on a conventional turntable.)

THE AISLES WERE jammed at the Windy City's SCES, as more than 92,000 attendees check out the latest offerings of the consumer electronics industry.

One large problem that all CD manufacturers must overcome is the persistently low consumer awareness about the CD. A recent survey by Industrial Marketing Research showed a scant 1 percent of consumers interviewed had indicated their intent to buy a CD player before year's end.

Another "problem" with CDs is that the fidelity of CDs is so good the players often pick up deficiencies in other parts of a hi-fi system. Thus audiophiles are expected to buy better speakers and amplifiers.

At a breakfast meeting with reporters on the opening day of the SCES, Neil Vander Dussen, president of Sony's consumer products division, said that Sony's parent firm in Japan planned to review the prospects for marketing a totally portable CD player in the States. "The prospect of a poortable unit is not that far away," he said. When asked by reporters to be more specific, he replied, "Probably before 1985."

Such an innovative product is nothing new for Sony, which turned the consumer elctronics industry upside down when it introduced the Sony Walkman, a product which has not only been phenomenally successful, but also spawned several knock-offs and imitations by other firms. Analysts credit the Walkman with helping to create the current headset audio craze.

The Sony executive also said his firm had 8mm video products on the drawing board that it could introduce, but instead would "sit on the sidelines for now." Vander Dussen said that the appeal of current 8mm systems might be seriously limited by the lack of prerecorded tapes that are available. (Because the maximum recording time of an 8mm cassette is now 90 minutes, motion pictures are unlikely to ever be offered in the 8 mm format, barring some new technological advance.)

The goal is to link, a 25-inch color TV to a VCR, a videodisc player, and AM/FM stereo tuner, and either a CD or a conventional turntable — all operated by a single remote control.

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		APRIL			YEAR-TO-DATE		
Commissaries		**CY'84**	**CY'83**	**%**	**CY'84**	**CY'83**	**%**
Air Force	CONUS	$139,881	$150,939	-7.33	$592,780	$580,527	+2.11
	OVERSEAS	27,976	30,571	-8.49	116,077	116,581	-0.43
	TOTAL	**167,857**	**181,510**	**-7.52**	**708,857**	**697,108**	**+1.69**
Army	CONUS	107,100	103,740	+3.24	419,160	410,652	+2.02
	OVERSEAS	29,085	32,550	-10.65	135,660	135,094	+0.42
	TOTAL	**136,185**	**136,290**	**-0.08**	**554,820**	**545,946**	**+1.63**
Navy	CONUS	55,601	64,832	-14.24	236,978	212,086	+11.74
	OVERSEAS	6,406	7,348	-12.82	27,529	24,355	+13.03
	TOTAL	**62,007**	**72,180**	**-14.09**	**264,507**	**236,441**	**+11.87**
Marines	CONUS	12,169	11,080	+9.83	51,041	44,908	+13.66
	OVERSEAS	196	205	-4.39	752	743	+1.21
	TOTAL	**12,365**	**11,285**	**+9.57**	**51,793**	**45,651**	**+13.45**
Coast Guard	CONUS	217	230	-5.65	941	1,092	-13.83
	OVERSEAS	336	166	+102.41	1,095	719	+52.29
	TOTAL	**553**	**396**	**+39.65**	**2,036**	**1,811**	**+12.42**
All Commissaries	CONUS	314,968	330,821	-4.79	1,300,900	1,249,465	+4.12
	OVERSEAS	63,999	70,840	-9.66	281,113	277,492	+1.30
	TOTAL	**$378,967**	**$401,661**	**-5.65**	**$1,582,013**	**$1,526,957**	**+3.61**
Grocery Stores	U.S.[1]	**$20.420 bil.**	**$20.129 bil.**	**+1.45**	**$81.568 bil.**	**$76.764 bil.**	**+6.26**
Exchanges							
AAFES	CONUS	$235,807	$233,536	+0.97	$862,652	$840,011	+2.70
	OVERSEAS	165,240	163,536	+1.04	604,247	597,678	+1.10
	TOTAL	**401,047**	**397,072**	**+1.00**	**1,466,899**	**1,437,689**	**+2.03**
Navy	CONUS[2]	94,247	90,815	+3.78	321,857	314,681	+2.28
	OVERSEAS[2]	38,643	37,209	+3.85	136,642	135,788	+0.63
	TOTAL[2]	**132,890**	**128,024**	**+3.80**	**458,499**	**450,469**	**+1.78**
Marines	CONUS	27,782	28,917	-3.93	105,086	105,619	-0.50
	OVERSEAS	5,091	4,958	+2.68	18,502	19,517	-5.20
	TOTAL	**32,873**	**33,875**	**-2.96**	**123,588**	**125,136**	**-1.24**
Coast Guard	CONUS[3]	6,490	6,301	+3.00	23,225	22,528	+3.09
	OVERSEAS[3]	813	859	-5.36	2,892	3,072	-5.86
	TOTAL[3]	**7,303**	**7,160**	**+2.00**	**26,117**	**25,600**	**+2.02**
Mail Order	CONUS[4]	1,218	1,078	+12.99	5,724	5,092	+12.41
	OVERSEAS[4]	3,515	3,619	-2.87	15,604	15,630	-0.17
	TOTAL[4]	**4,733**	**4,697**	**+0.77**	**21,328**	**20,722**	**+2.92**
All Exchanges	CONUS	365,544	360,647	+1.36	1,318,544	1,287,931	+2.38
	OVERSEAS	213,302	210,181	+1.48	777,887	771,685	+0.80
	TOTAL	**$578,846**	**$570,828**	**+1.40**	**$2,096,431**	**$2,059,616**	**+1.79**
Department Stores	U.S.[1]	**$9.676 bil.**	**$8.652 bil.**	**+11.84**	**$33.608 bil.**	**$29.971 bil.**	**+12.14**

1) SOURCE: U.S. Department of Commerce. 2) Does not include sales of ships stores. 3) MM estimate, based on official data. 4) Includes consolidated sales for all services, including Coast Guard.

Individual figures may not add to totals because of rounding. All sales are expressed in millions (add 000), except grocery stores and department stores, which are in billions. Commissary sales include appropriate surcharges, and exchange sales include concession volume.

NOTE: The figures in last month's index (July 1984 issue) were for March, rather than April.